

Exploring the Determinant Factors on Organizational Performance: a Literature Review

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Abstract. The word organizational performance has been commonly used in the business world. Due to its unique quality in human resources management, an organization has made it a priority. Nevertheless, the determinants factors of organizational performance have been the major concern of the previous scholars. Infact, any organization that fails to improve in its performance will lack competitive advantages. Thus, the major objective of this study is to explore the determinant factors of organizational performance. Based on the evidence derived from the literature, the paper concludes human resource management practices such as training & development, rewards& compensations, recruitment & selections are the determinants and enhancement of the organizational performance within an organization.

Keywords: Recruitment and Selection, Rewards and Compensation, Training and Development, Organizational Performance.

1. Introduction

Organizations come in all shapes and sizes and often exhibit more differences than similarities. But one common factor to all organizations is that “success is highly dependent on the skills, knowledge and experience of the employees within them” (Development and Learning organizations, 2011). The matter of human resources activities have been commonly used to observe organizational performance. There is no doubt that “the distinctive feature of human resource management HRM is its theory that better performance is achieved through the people in the organization” (Guest, 1997). Delaney and Huselid (1996), identify several HR practices among them are: recruitment and selection, training and development, rewards and compensation, and these are usually utilized as a starting point and appear to impact organizational performance under all situations.

In addition, it is surprising then that in the present knowledge economy, human resources are now being recognized as strategic tools vital to organizational profitability and sustainability. As noted by Myloni et al; (2004), this realization resulted in human resources practitioners assuming new roles as strategic partners in formulation and implementing organizational strategy. Not surprisingly, organizations are implementing proactive HRM practices and activities in order to capitalize on the strength of this critical asset for sustained competitive advantage in today’s knowledge economy.

HRM is positively associated with organizational performance; there is still need for additional research to be undertaken to provide more evidence that support the HRM-performance relationship from different cultural contexts. For this reason, ever since the emergence of the concept of strategic human

resources in the mid-1970 there has been much debate as to which of the numerous HRM policies or practices that have been put forward, actually facilitate superior organizational performance.

2. Literature Review

2.1 Organizational Performance

Many scholars have utilized both non-financial and financial metrics to measure firm or organizational performance (Dyer & Reeves, 1995; Khan, 2010). Some of the financial measures are sales, profit, and market share. Notable non-financial measures include efficiency, quality, productivity, and the behavioral and attitudinal measures such as satisfaction, intention to quit, and commitment. As is evident from the foregoing discussion there are different approaches that measure organizational performance which are premised on non-financial as well as financial measures. In this regard, Hoskisson et al., (2000) observed that lack of market-focused financial reporting, lack of fairness in financial reporting, insufficient regulatory mechanism and enforcement about financial reporting, and provision of fabricated financial information are key issues confronting developing countries.

Usually a non-objective measure compels decision makers to take into consideration organizational goals when assessing its performance. One should note that several studies have raised convincing doubts about the causal distance between an HRM input and such output premised on purely financial performance. Put another way, so many other factors, both internal and external, influence organizations that this direct link between HRM and performance rather lacks credibility (Boselie et al., 2005). As such, many scholars have argued that more proximal measures over which subordinates exert influence are in theory more credible and easier to link. These include productivity (Huselid, 1995; Chang & Chen, 2002), job satisfaction (Guest, 2003), employees turnover intentions (Batt, 2002), absenteeism (Lowe et al., 1997), quality of product and service (MacDuffie, 1995), trust in management (Whitener, 2001), and commitment (Tsui et al., 1997). Some studies also investigated the negative effect of HRM policies on organizational performance that includes subordinates' stress level (Ramsay et al., 2000). In extant literature, the dominance of subjective measures still exists (Youndt et al.,1996; Delaney & Huselid, 1996). Significant evidence subsist in earlier studies showing that subjective measures and objective measures of organizational performance link up well (Powell, 1992; Geringer & Hebert, 1991).

2.2 Recruitment and Selection

Basically, recruitment is the process of attracting applicants for the positions needed in the organization and it is highly interdependent on other variables. It attracts a maximum number of highly talented candidates and selecting the right candidate enhances organizational competitiveness. Most organizations recruitment that is fully integrated with other HRM activities, particularly selection will enables to gather and assess information about job candidates in order to make a good decision. The process of recruitment and selection involves d actions by management in making sure that, it bring success in the implementation of organizational strategy. Actually, without effective induction, the implementation of organizational strategies may waver(Cascio,2006). Thus, an effective selection system depends on modern and need-based tests is key in facilitating effective selection. Moreover, substantial allocation resources are required to make selection tests a success(Pfeffer,1998) Also, the merit-based and transparent induction systems enhance organizational credibility and make subordinates' loyal to the organization Researchers like Delany and Huselid (1996) have concluded that the implementation of an effective recruitment and selection process yields a positive relationship with organizational performance

while Terpstra & Rozell (1993) found a positive and significant link between recruitment and selection procedures and corporate profits and subordinate' productivity (Koch & McGrath, 1996; Huselid, 1995).

2.3 Compensation

The strategic human resources management consists of pay for performance activities may assist in bringing out the best in people and in the process identifying emerging leaders or where performance difficulties or pay imbalances may exist (Bowley, 2005). Nonetheless, all of these approaches assume that organizations are in -dept in selection that is appropriate for the organization and thus worth nurturing. In reality this may not be the case.

However, compensating employees in form of rewards are the best way to achieve organizational performance for it triggers the employees to put in their best performance which in turns increase productivity and hence organizational performance. Milkovich & Newman (1999), posited that the activity of compensation encompasses all forms of monetary returns and related services provided to subordinates or employees. It is generally argued that a comprehensive compensation blend complemented by an effective disbursement system plays a valuable task in attracting the best applicants. Mathis and Jackson (2004) posited that a balanced, transparent and competitive reward and compensation system influence the retention of talents. Similarly, Dreher & Dougherty (2005) conclude that a reward-based approach functions as the driver of team and individual performance in organizations.

The significant evidence subsists in existing literature about the positive relationship between compensation and reward systems and organizational performance. In this regard Chiu et al., (2002) stated that rewards and compensation considerably affect organizational outcomes. Equally Jyothi and Venkatesh (2006) established that competency-based rewards and pay enhances the quality of goods and services, improves subordinates' behaviour, and decreases accidents rates in organizations, thereby improving organizational performance. Not surprisingly, studies have investigated the link between compensation and reward, and organizational performance. As mentioned earlier, researchers found that an effective compensation and reward process enhances productivity; sales and overall organizational performance (Delaney & Huselid, 1996; Chiu et al., 2002; Dreher & Dougherty, 2005).

2.4 Training of Employees

Employee training is actually investment for organization with the aims to reduce employees' turnover. In this modern time, emphasis on training and acquisition of new skills is increasingly becoming key for organizations to attain enduring outcomes (Blair and Sisakhti, 2007; Bitner and Zeithmal, 2004; Kundu ,2000). Training of employees significantly increases the competitive advantage and significantly encourages team social networks between members (Wimbush, 2005). Castrogiovanni and Kidwell, (2010) mentioned that with the training implementation, organizations will enhance the workforce capabilities and improve their current skills for long term purpose. According to Katou and Budhwar, (2006) the importance of training cannot be underestimated since it enhances organizational performance by producing high committed employees to stay longer within the organization.

Thus, training and development yields tangible outcomes such as enhanced productivity, superior quality of products and services, and resource maximization or optimization. It also generate intangible results such as high self esteem, enhanced morale, and satisfaction of subordinates due to gaining of

additional skills, knowledge and abilities (SKAs). Unsurprisingly, Kundu (2000) noted that firms should invest heavily in training their employees for effective implementation of customer-oriented strategies. Similarly, Blair and Sisakhti (2007) established that investments on training and development produce enormous benefits. Scholars like Bitner and Zeithmal (2004) concluded that ,expenditures on training leads to organizational competitive advantage.

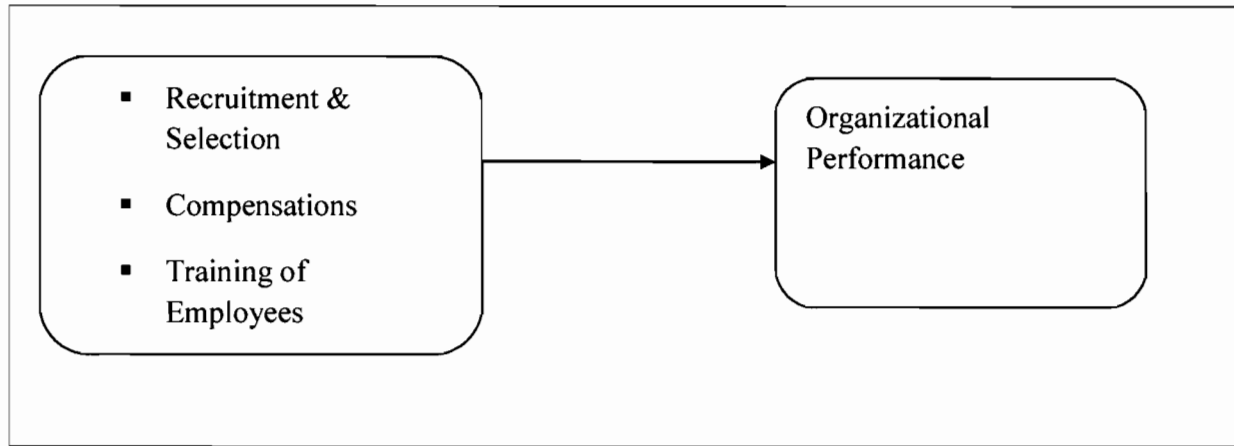


Fig 1: The determinant factors of the organizational performance.

3. Conclusion

This paper explore the importance of the determinant factors of organizational performance based on the existing literature. The discussion is based on the importance of the determining factors on organizational performance. It also presents the framework to enhance organizational performance and organization must develop the distinctive features such as training of employees, recruitment & selection, compensations rewards, to gain a competitive advantage. However, the determining factors will immensely improve organization performance for business continuity.

4. References

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